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MAGNITOGORSK IRON & STEEL WORKS OJSC

ANNUAL REPORT 2010

SEPARATELY PUBLISHED

ANNEX

TO THE 2010 ANNUAL REPORT

1. Notes to the consolidate financial statements for the year ended December 31 2010.

2. Information on compliance with the Code of Corporate Conduct

Annex 1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

(In millions of U.S. Dollars, unless otherwise stated)

1. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

New and revised Standards and Interpretations adopted in the current period

The following new standards, amendments to standards or interpretations are adopted by the Group and effective for the financial year commencing 1 January 2010:

- IFRS 2 "Share-based payment" – amendment;
- IFRS 5 "Non-current assets held for sale and discontinued operations" – amendment;
- IFRS 8 "Operating segments" ("IFRS 8") – amendment;
- IAS 1 "Presentation of financial statements" – amendment;
- IAS 7 "Statement of cash flows" – amendment;
- IAS 17 "Leases" – amendment;
- IAS 36 "Impairment of assets" – amendment;
- IAS 39 "Financial instruments: recognition and measurement" – amendment;

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2010 had no material effect on the consolidated financial statements of the Group.

Standards and Interpretations in issue not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the current year:

	Effective for annual periods beginning on or after
IAS 1 "Presentation of financial statements" – amendment	1 January 2011
IAS 12 "Income taxes" – amendment	1 January 2012
IAS 24 "Related party disclosures" – revision	1 January 2011
IAS 27 "Consolidated and Separate Financial Statements" – amendment	1 July 2010
IAS 32 "Financial instruments: presentation" – amendment	1 February 2010
IAS 34 "Interim Financial Reporting" – amendment	1 January 2011
IFRS 7 "Financial Instruments: Disclosures" – amendment	1 January 2011
IFRS 7 "Financial Instruments: Disclosures" – amendment	1 July 2011
IFRS 9 "Financial instruments" – amendment	1 January 2013
IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"	1 January 2011
IFRIC 19 "Extinguishing financial liabilities with equity"	1 July 2010

The impact of the adoption of these Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by Group management, however no material effect on the Group's financial position or results of its operations is anticipated.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

International Financial Reporting Standards ("IFRS") include Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") who replaced the Standing Interpretations Committee.

The consolidated financial statements of the Group have been prepared in accordance with IFRS.

Basis of preparation

The consolidated financial statements of the Group are prepared on the historical cost basis except for the revaluation of property, plant and equipment in accordance with IAS 16 “Property, plant and equipment” and the mark-to-market valuation of certain financial instruments which are reported in accordance with IAS 39 “Financial instruments: recognition and measurement”.

The accounting policies set out below have been consistently applied in preparing the consolidated financial statements for the year ended 31 December 2010 and the comparative information presented in these financial statements.

Basis of consolidation

Subsidiaries

These consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group’s equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity.
Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 “Financial Instruments: recognition and measurement” or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group’s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition,
after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Special purpose entities

Special purpose entities ("SPE") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with activities of the SPE. SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

Net assets attributable to minority participants

The Group controls certain Limited Liability Companies ("LLC"). Non-controlling participants ("minority participants") in such LLC's have a right to request (at any time) redemption of their interest in the respective LLC in cash. The obligations of respective LLC to redeem those non-controlling interests give rise to financial liabilities, payment of which is conditional upon the minority participants exercising their right to redemption. Management of the Group regularly assesses these potential liabilities by reference to the carrying value of net assets attributable to minority participants in the relevant LLC. The Group's liability is determined as the greatest of the amount due calculated in accordance with IFRS and Russian Accounting Standards and is presented in these consolidated financial statements as net assets attributable to minority participants. Any change in net assets attributable to participants during the year is recognised in the consolidated statement of comprehensive income as a change in net assets attributable to minority participants.

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency of the Group's entities except for MMK Atakas Metalurji is the Russian Rouble ("RUB"). The functional currency of MMK Atakas Metalurji is the New Turkish Lira ("TRY").

These consolidated financial statements are presented in millions of USD. Using USD as a reporting currency is considered by management to be more relevant for users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all items included in the consolidated shareholders' equity, other than net income, are translated at historical exchange rates;
- all income and expenses in each consolidated statement of comprehensive income are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the year an average exchange rate for the year is applied;
- resulting exchange differences are included in other comprehensive income as "Effect of translation to presentation currency"; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the year an average exchange rate for the year is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of translation to presentation currency".

Exchange rates used in preparation of the consolidated financial statements were as follows:

	31 December	
	2010	2009
Russian Rouble/US Dollar		
Year-end rates	30.48	30.24
Average for the period	30.39	31.58
New Turkish Lira/US Dollar		
Year-end rates	1.56	1.51
Average for the period	1.51	1.56

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than the functional currencies of the Group's entities (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each statement of financial position date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the date of statement of financial position. Non monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of comprehensive income.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values, other than equity-related contingent consideration, are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described above.

Revenue recognition

Revenue is recognised when earned and realisable, which generally occurs when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists and the sales price is fixed or determinable.

Revenue is recognised net of applicable provisions for discounts, allowances, associated value-added taxes and export duties.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in the year in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of statement of financial position.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the date of statement of financial position. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Manufacturing assets

The Group has adopted a revaluation model for the subsequent measurement of its property, plant and equipment. Property, plant and equipment are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the date of statement of financial position.

Any revaluation increase arising on the revaluation of property, plant and equipment is credited in equity to a separate revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the consolidated statement of comprehensive income as incurred.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets is recorded on the same basis as for other property assets, and commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment should be made.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Mining assets

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development expenditures, capitalised exploration and evaluation expenditures and mineral licenses.

Mineral reserves

Mineral reserves represent tangible assets acquired in business combinations and mineral licenses, to the extent such licenses were acquired with and are inseparable from the mineral reserves. Mineral reserves are estimates of the amount of product that can be economically and legally extracted.
In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs and others.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of coalbodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments to interpret the data.

Mine development expenditures

Mine development costs are capitalised in construction-in-progress and transferred to mining assets when a new mine reaches commercial production quantities.

Capitalised mine development costs comprise expenditures directly related to:

- acquiring mining and exploration licenses;
- developing new mining operations;
- defining further mineralisation in existing mineral bodies; and
- expanding capacity of a mine.

Mine development costs include interest capitalised during the construction period when financed by borrowings.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are recognised as an asset if the probability of success is high. Exploration and evaluation assets include acquisition of rights to explore; topographical, geographical, geochemical and geopeophysical studies; exploratory drilling; activities in relation to evaluating
the technical feasibility and commercial viability of extracting a mineral resource. Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level,
when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is immediately recognised as impairment loss in the consolidated statement of comprehensive income.

Capitalisation ceases when exploration and evaluation activity ceases in the related area and capitalised costs are reclassified to mining assets.

Mineral licenses separately acquired

Mineral licenses acquired separately from mineral reserves to develop mineral reserves and resources are stated at historical cost less accumulated amortisation.

Depreciation

Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	12-50 years
Machinery and equipment	3-30 years
Transportation equipment	5-20 years
Fixtures and fittings	3-16 years

Mineral licenses are amortised using the straight-line basis over the lesser of their economic useful lives or the life of respective mine.

Depreciation of other mining assets is determined using the unit of production method based on the extracted volumes of mineral reserves and estimated production capacity of the individual assets.

The estimated useful lives, residual values, and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the finance cost and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets primarily represent production licenses and various purchased software costs. Amortisation is charged on a straight-line basis over their estimated useful lives which are:

Licenses	3-25 years
Purchased software	1-10 years
Other intangibles	1-10 years

Impairment of tangible and intangible assets, excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Cost includes direct material, labour and allocable material and manufacturing overheads. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials are valued at purchase cost inclusive of freight and other shipping costs.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. The impairment charged to reduce the carrying amount of inventories to their net realisable value and an allowance for obsolete and slow-moving inventory are included in consolidated statement of comprehensive income as cost of sales.

Deferred drifting costs

The direct costs and attributable overheads of the preparation of underground coal reserves (drifting) for production using advanced mining machinery are included in inventory and recognised as cost of sales on the unit of production basis of each coal drift.

Value-added taxes

Value-added taxes ("VAT") related to sales are payable to the tax authorities upon issuance of invoices to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable as of the date of statement of financial position is recorded as value added tax recoverable in the consolidated financial statements.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability.

Financial assets

Financial assets recognised on the Group's consolidated statement of financial position include available-for-sale, held-to-maturity, and trading investments, loans receivable, trade and other receivables, and cash and cash equivalents. Financial assets are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

<u>Investments</u>

Investments, other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit or loss; and
- available-for-sale.

The classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in finance income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the date of statement of financial position.

Investments at fair value through profit or loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit or loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the date of statement of financial position, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss is recognised in the consolidated statement of comprehensive income. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in equity, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in consolidated statement of comprehensive income.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in consolidated statement of comprehensive income even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market are recorded at management's best estimate of fair value. Those securities, for which the fair value cannot be reliably measured, are recorded at cost.

Loans receivable

Loans receivable are measured at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and subsequently reduced by appropriate allowances for estimated irrecoverable amounts. Receivables with fixed maturities due in more than a year are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for impairment. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognised in the consolidated statement of comprehensive income.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the consolidated statement of comprehensive income even though the investment has not been derecognised. Impairment losses previously recognised through consolidated statement of comprehensive income are not reversed.
Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The Group recognises financial liabilities in its consolidated statement of financial position when it becomes a party to a contractual obligation. Financial liabilities are initially measured at its fair value plus transaction costs that are directly attributable to the financial liability, except for financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value.

After initial recognition financial liabilities are carried at amortised cost. The amortised cost of a financial liability is the amount at which the financial liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Bank loans and other non-bank borrowings

All loans and borrowings are initially recorded at fair value, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Financial guarantee contracts

Financial guarantee contracts are measured initially as a liability at their fair values and are subsequently measured at the higher of the amount of the current obligation under the contract
and the amount initially recognised less cumulative amortisation recognised in accordance with
the revenue recognition policies set out above.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated statement of comprehensive income.

Defined contribution plans

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis).
The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to consolidated statement of comprehensive income in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through an insurance contributions calculated by the application of
a regressive rate from 26% to 0% of the annual gross remuneration of each employee. This rate depends on the annual gross remuneration of each employee.

The Group's obligations for contributions to other defined contribution plans are recognised as expense as incurred.
Defined benefit plans

The Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield on government bonds that have maturity dates approximating the terms of the Group's obligations. Actuarial gains and losses are fully recognised in the consolidated statement of comprehensive income in the period they occur.

Restricted cash

Restricted cash represents legally restricted collateral deposited with various banks as margin for irrevocable letters of credit and is included in other long-term assets of the consolidated statement of financial position.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle
the present obligation at the date of statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as a provision.
An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Site restoration provision

In accordance with applicable legal requirements, a provision for the site restoration in respect of open pit and shaft mining and related tax effect is recognised when the extraction takes place.

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Segment information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group's chief operating decision maker ("CODM"). The Group has identified the Chairman of the Board of Directors as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified two reportable segments: steel and coal mining.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Revaluation of property, plant and equipment

As described in Note 3, the Group applies a revaluation model to the measurement of property, plant and equipment. At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether carrying amount differs materially from fair value. The Group carries out such a review by preparing a discounted cash flow analysis including assumptions in respect of such items as projected revenues and a discount rate. Additionally, the Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform a fair value analysis in any given period.

Based on the results of this review, the Group concluded property, plant and equipment did not have to be revalued as at 31 December 2010 and 2009.

No revaluations have been performed subsequent to 1 January 2007, with the next revaluation being planned to occur during the year 2011.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- trade and other receivables;
- inventory valuation;
- useful economic lives and residual values of property, plant and equipment;
- impairment of assets; and
- taxation.

Trade and other receivables

Accounts receivable are stated at their net realisable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the Group's best estimate of probable credit losses in the Group's existing accounts receivable balances. In estimating the allowance, management considers a number of factors including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance.

Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required.

Inventory valuation

At each date of the consolidated statement of financial position, the Group evaluates its inventory balance for excess quantities and obsolescence and determines an estimate for an allowance to reduce inventory for obsolete and slow-moving raw materials and spare parts. Any changes in the estimates may impact the amount of the allowances for inventory that may be required.

Useful economic life and residual value of property, plant and equipment

The Group's property, plant and equipment, other than mining assets, are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values include the following:

- changes in asset utilisation rates;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Depreciation of mining assets

The cost of mining structures is depreciated using the units of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine. The estimated production volumes are updated on a regular basis and have taken into account recent production and technical information about each mine. These changes are considered a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volume are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Taxation

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation and of other countries, where the Group's entities operate. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

In addition, the Group records deferred tax assets at each date of the consolidated statement of financial position based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write-off of deferred tax assets in future periods for assets that are currently recorded in the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability.
If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an increase in valuation allowance will be required, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the valuation allowance could be reduced, with a corresponding credit to income.

4. ACQUISITION OF SUBSIDIARIES

During years ended 31 December 2010 and 2009, a subsidiary of the Paren t Company, MMK Atakas Metalurji, issued additional ordinary shares for a total nominal value of USD 162 million and USD 94 million, respectively. These additional shares issued were purchased by the Group and the minority shareholders in proportion to their existing ownership.

2009 Acquisitions

Onarbay Enterprises Ltd

In March 2008, the Group acquired a 50% share in Onarbay Enterprises Ltd, Cyprus, which holds an 82.6% ownership interest in OJSC Belon, a coal-producer, located in the Russian Federation, for a total cash consideration of USD 234 million.

In October 2009, the Group acquired the remaining 50% share in Onarbay Enterprises Ltd, Cyprus, an associate of the Group, for a total cash consideration of USD 309 million. Following this acquisition, the Group obtained control over Onarbay Enterprises Ltd, a holding company of OJSC Belon and its subsidiaries ("Belon Group"). The Group acquired Onarbay Enterprises Ltd in order to obtain access to Belon Group's coal supply for its ongoing operations. Onarbay Enterprises Ltd itself is a holding company with no independent operations, other than those within the Belon Group.

This acquisition was accounted for using the acquisition method. The non-controlling interest was measured at fair value with reference to the market quotations of OJSC Belon ordinary shares at the date of acquisition. The same basis was applied to remeasurement at fair value of the previously held interest in Onarbay Enterprises Ltd, which effectively comprised the operations of the Belon Group given Onarbay Enterprises Ltd is a holding company only.

At the time of acquisition, the Group estimated the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis and reported the provisional results of acquisition in the consolidated financial statements for the year ended 31 December 2009. The purchase price allocation was finalised during the year ended 31 December 2010 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition	**Final value at the date of acquisition**
ASSETS		
Property, plant and equipment	1,052	1,068
Other intangible assets	2	2
Investments in securities and other financial assets	3	3
Inventories	30	123
Trade and other receivables	147	54
Deferred tax assets	16	33
Cash and cash equivalents	38	38
Other assets	7	7
	1,295	1,328
LIABILITIES		
Borrowings	532	532
Obligations under finance lease	18	18
Trade and other payables	100	100
Site restoration provision	-	16
Deferred tax liabilities	118	118
	768	784
Net assets at the date of acquisition	527	544
Fair value of consideration given for controlling interest	309	309
Non-controlling interest (fair value)	145	145
Fair value of previously held interest	344	344
	798	798
Less: fair value of net assets of acquiree	(527)	(544)
Goodwill	**271**	**254**

As a result of the completion of the purchase price allocation, the overall value of net assets acquired increased by USD 17 million, and goodwill decreased by USD 17 million, compared to the amounts presented in the consolidated financial statements of the Group for the year ended 31 December 2009.

The goodwill arising on this acquisition primarily relates to increased security of a key material input of the production process. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

As part of the step acquisition accounting under IFRS 3(R), the Group recognised a revaluation gain resulting from remeasurement of previously held interest. The gain of USD 175 million has been recorded in the consolidated statement of comprehensive income in “Gain on revaluation of investment in associate upon acquisition of majority ownership”.

If the combination had taken place at the beginning of the year ended 31 December 2009 the Group’s revenue would have been USD 5,377 million, profit before income tax and profit for the year would have been USD 182 million and USD 166 million respectively.

Belon Group contributed USD 52 million of revenue and USD 57 million of loss before income tax from the date of acquisition to 31 December 2009.

CJSC Profit

In June 2009, the Group acquired a 100% share in CJSC Profit, a holding company of Profit Group engaged in scrap collection and processing, for a total cash consideration of USD 15 million. Entities of the acquired group are incorporated in the Russian Federation, are located throughout the Russian Federation, with a holding company located in Magnitogorsk. The scrap, collected by the Profit Group, is primarily sold to the Group. The acquisition of this strategic raw material supplier significantly strengthened the Group’s security in terms of raw materials supplies.

This acquisition was accounted for using the acquisition method. The non-controlling interest was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

At the time of acquisition, the Group estimated the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis and reported the provisional results of acquisition in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2009. The purchase price allocation was finalised during the three months ended 30 September 2009 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition	**Final value at the date of acquisition**
ASSETS		
Property, plant and equipment	64	55
Investments in securities and other financial assets	20	19
Inventories	15	14
Trade and other receivables	38	38
Deferred tax assets	-	15
Cash and cash equivalents	8	8
	145	149
LIABILITIES		
Borrowings	19	6
Obligations under finance lease	9	11
Trade and other payables	36	71
Deferred tax liabilities	-	4
Net assets attributable to minority participants	5	4
	69	96
Net assets at the date of acquisition	76	53
Fair value of consideration given	15	15
Non-controlling interest	6	8
	21	23
Less: fair value of net assets of acquiree	(76)	(53)
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	**(55)**	**(30)**

The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 30 million has been recorded in the consolidated statement of comprehensive income. This excess relates in part to the relatively low activity in the scrap metal market as a result of the global economic crisis and also to the Group's dominant position as a main customer of Profit Group.

If the combination had taken place at the beginning of the year the Group's revenue would have been USD 5,113 million, profit before income tax and profit for the year would not change significantly.

CJSC Profit and its subsidiaries contributed USD 36 million of revenue and USD 7 million of loss before income tax from the date of acquisition to 31 December 2009.

5. SALE OF DISPOSAL GROUP

In December 2010, the Group sold a disposal group which consisted of two subsidiaries, LLC Shakhta Listvyazhnaya and CSJC OF Listvyazhnaya, and certain assets related to the coal mining operations of the Group for a total cash consideration of USD 280 million. Of this amount, USD 55 million remained outstanding at 31 December 2010 and is payable on 1 April 2011.

Consideration received

	2010
Consideration received in cash	225
Deferred sales proceeds (Note 20)	55
	280

Assets and liabilities disposed of are:

	Carrying amount of assets and liabilities disposed of
ASSETS	
Property, plant and equipment	211
Inventories	49
Trade and other receivables	9
Deferred tax assets	6
	275
LIABILITIES	
Trade and other payables	10
Deferred tax liabilities	18
	28
Net assets disposed of	247
Consideration received	280
Net assets disposed of	(247)
Gain on disposal	**33**

The above gain on disposal in the amount of USD 33 million has been recorded in “Other operating expenses, net” in the consolidated statement of comprehensive income (Note 12).

6. REVENUE

By product	**2010**	**2009**
Rolled steel	4,807	3,085
Assorted rolled products	466	413
Galvanised steel	435	331
Galvanised steel with polymeric coating	333	177
Coal	247	36
Tin plated steel	219	226
Hardware products	176	92
Wire, sling, bracing	172	125
Coking production	132	47
Formed section	121	52
Slabs	112	12
Band	90	74
Tubes	51	39
Scrap	33	33
Others	325	339
Total	**7,719**	**5,081**

By customer destination	2010	2009
Russian Federation and the CIS	69%	63%
Iran	8%	9%
Turkey	4%	3%
Italy	3%	3%
Vietnam	2%	3%
India	1%	3%
China	-	5%
Other (countries representing less than 2% of total revenue)	13%	11%
Total	**100%**	**100%**

7. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

The reports used by the chief operating decision maker contain the following segments:

- ***steel segment,*** which includes the Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk, the Russian Federation;
- ***coal mining segment,*** which includes OJSC Belon and its subsidiaries involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo, the Russian Federation.

Prior to the acquisition of the controlling interest in Onarbay Enterprises Ltd in October 2009 (Note 5) the Group operated in a single business segment, which was composed of the manufacturing of semi-finished and finished steel products.

The profitability of the two operating segments is primarily measured based on Segment EBITDA. Segment EBITDA is determined as the segment's operating profit adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including any impairment of the investments in associates, and the gain on revaluation of investment in associate upon acquisition of majority ownership. Since this term is not a standard measure in IFRS, the Group's definition of EBITDA may differ from that of other companies.

The following table presents measures of segment results for the year ended 31 December 2010:

	2010			
	Steel	**Coal mining**	**Eliminations**	**Total**
Revenue				
Sales to external customers	7,562	157	-	7,719
Inter-segment sales	-	399	(399)	-
Total revenue	**7,562**	**556**	**(399)**	**7,719**
Segment EBITDA	1,336	270	-	1,606
Depreciation and amortisation	(731)	(95)	-	(826)
Loss on disposal of property, plant and equipment	(136)	(23)	-	(159)
Share of results of associates	(11)	-	-	(11)
Operating profit per IFRS financial statements	**458**	**152**	**-**	**610**

The following table presents measures of segment results for the year ended 31 December 2009:

	2009			
	Steel	Coal mining	Eliminations	Total
Revenue				
Sales to external customers	5,029	52	-	5,081
Inter-segment sales	-	42	(42)	-
Total revenue	**5,029**	**94**	**(42)**	**5,081**
Segment EBITDA	1,301	8	-	1,309
Depreciation and amortisation	(715)	(20)	-	(735)
Loss on disposal of property, plant and equipment	(105)	(13)	-	(118)
Share of results of associates	31	-	-	31
Gain on revaluation of investment in associate upon acquisition of majority ownership	(175)	-	-	(175)
Operating profit/(loss) per IFRS financial statements	**337**	**(25)**	**-**	**312**

A reconciliation from operating profit per IFRS financial statements to profit before taxation is included in the consolidated statement of comprehensive income

At 31 December 2010 and 2009, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2010			
	Steel	Coal mining	Eliminations	Total
Total assets	16,256	1,008	(526)	16,738
Total liabilities	5,720	473	(141)	6,052

	31 December 2009			
	Steel	Coal mining	Eliminations	Total
Total assets	14,381	1,220	(752)	14,849
Total liabilities	4,145	761	(382)	4,524

8. COST OF SALES

	2010	2009
Cost of production		
Raw materials used	4,241	2,484
Depreciation of property, plant and equipment	801	708
Payroll and unified social tax	719	464
Drifting costs	66	10
Other expenses	252	174
	6,079	3,840
(Increase)/decrease in work in progress, finished goods and goods-in-transit	(127)	100
Total	**5,952**	**3,940**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Labour	213	165
Taxes other than income tax	123	79
Professional services	69	44
Depreciation and amortisation	25	27
Insurance	25	21
Materials	9	8
Actuarial losses /(gains) (Note 27)	8	(12)
Other	23	17
Total	**495**	**349**

10. SELLING AND DISTRIBUTION EXPENSES

	2010	2009
Transportation expenses	492	371
Labour	12	9
Advertising expenses	2	1
Other	59	48
Total	**565**	**429**

11. OTHER OPERATING EXPENSES, NET

	2010	2009
Loss on disposal of property, plant and equipment, net	159	118
Bad debt expense	31	71
Net gain on revaluation and sale of trading securities	(52)	(113)
Gain on sale of disposal group (Note 6)	(33)	-
Net gains on sale of other assets	(16)	(6)
Other operating losses/(gains), net	8	(19)
Total	**97**	**51**

12. OTHER EXPENSES

For the years ended 31 December 2010 and 2009, other expenses included USD 77 million and USD 69 million, respectively, related to mandatory and voluntary social programs and maintenance of social assets.

13. INCOME TAX

The Group's provision for income taxes attributable to different tax jurisdictions for the years ended 31 December 2010 and 2009 was:

	2010	2009
Current provision for income tax:		
Russian Federation	74	20
Switzerland	-	1
Adjustments recognised in current year relating to prior year current tax		
Russian Federation	(22)	(42)
Deferred income tax expense/(benefit), net:		
Russian Federation	2	77
Switzerland	4	(18)
Total income tax expense	**58**	**38**

Adjustments recognised in 2010 relating to prior year current tax relate to estimates for bad debt allowances and capitalised expenses in 2009, the estimates of which subsequently changed following submission of the Parent Company's income tax returns for that year. An offsetting deferred tax charge was also recorded as a result of these adjustments.

Adjustments recognised in 2009 relating to prior year current tax relate to estimates for bad debt allowances and capitalised expenses in 2009 and accelerated tax depreciation in 2008, the estimates of which subsequently changed following submission of the Parent Company's income tax returns for those years. An offsetting deferred tax charge was also recorded as a result of these adjustments.

The corporate income tax rates in other countries where the Group has a taxable presence vary from 15% to 24%.

The provision for income taxes is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit before income tax. The items causing this difference are as follows:

	2010	**2009**
Profit before income tax	290	257
Income tax provision computed at the Parent Company's statutory rate of 20%	58	51
Adjustments due to:		
Effect of different tax rates of subsidiaries operating in		
other jurisdictions	(1)	6
Adjustments of prior years' income taxes	-	(7)
Expenses not deductible and income not taxable for tax purposes:		
- Gain on revaluation of investment in associate upon acquisition of majority ownership	-	(35)
- Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	-	(6)
- Other permanent differences	1	29
Income tax expense	**58**	**38**

The movement in the Group's deferred tax position during the current and prior reporting period was as follows:

	31 December	
	2010	**2009**
Net deferred tax liability at the beginning of the year	1,290	1,106
Acquisition of subsidiaries (Note 5)	-	74
Sale of disposal group (Note 6)	(12)	-
Revaluation of available-for-sale investments	85	79
Deferred tax expense	6	59
Effect of translation to presentation currency	(11)	(28)
Net deferred tax liability at the end of the year	**1,358**	**1,290**

Deferred income tax assets and liabilities comprise differences arising between the tax and accounting bases of the following assets and liabilities:

	31 December	
	2010	**2009**
Accounts receivable	30	27
Unused tax losses	18	27
Accounts payable	18	10
Property, plant and equipment	17	39
Investments	14	12
Inventories	5	8
Loans	4	9
Gross deferred income tax assets	106	132
Property, plant and equipment	(1,213)	(1,271)
Investments	(176)	(92)
Inventories	(33)	(24)
Accounts receivable	(23)	(13)
Loans	(11)	(13)
Accounts payable	(8)	(9)
Gross deferred income tax liabilities	(1,464)	(1,422)
Net deferred income tax liabilities	**(1,358)**	**(1,290)**

At 31 December 2010 and 2009, deferred income tax liabilities arising on differences in valuation of investments included USD 170 million and USD 85 million, respectively, related to unrealised holding gains on long-term equity securities classified as available for sale (Note 21).

At 31 December 2010 and 2009, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 749 million and USD 555 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is more likely than not that Group will realise the benefits of the deductible differences.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction-in-progress	Total
Cost							
At 1 January 2009	**2,466**	**6,458**	**215**	**158**	**25**	**1,841**	**11,163**
Additions	13	151	14	5	4	1,355	1,542
Acquisition through business combinations	344	330	28	6	238	177	1,123
Transfers	578	801	8	10	-	(1,397)	-
Disposals	(18)	(176)	(11)	(2)	-	(16)	(223)
Effect of translation to presentation currency	(50)	(158)	(6)	(4)	(7)	(61)	(286)
At 31 December 2009	**3,333**	**7,406**	**248**	**173**	**260**	**1,899**	**13,319**
Additions	113	259	16	8	21	1,798	2,215
Transfers	491	762	21	32	42	(1,348)	-
Disposals	(18)	(155)	(13)	(3)	-	(16)	(205)
Sale of disposal group	(119)	(95)	-	(2)	(14)	(9)	(239)
Effect of translation to presentation currency	(25)	(56)	(6)	(2)	(1)	(15)	(105)
At 31 December 2010	**3,775**	**8,121**	**266**	**206**	**308**	**2,309**	**14,985**
Depreciation							
At 1 January 2009	**(337)**	**(995)**	**(54)**	**(25)**	**(1)**	**-**	**(1,412)**
Charge for the year	(188)	(492)	(28)	(15)	(2)	-	(725)
Disposals	3	88	5	1	-	-	97
Effect of translation to presentation currency	1	11	1	-	-	-	13
At 31 December 2009	**(521)**	**(1,388)**	**(76)**	**(39)**	**(3)**	**-**	**(2,027)**
Charge for the year	(169)	(584)	(28)	(18)	(22)	-	(821)
Disposals	5	32	7	2	-	-	46
Sale of disposal group	8	17	-	-	3	-	28
Effect of translation to presentation currency	5	14	-	(1)	(3)	-	15
At 31 December 2010	**(672)**	**(1,909)**	**(97)**	**(56)**	**(25)**	**-**	**(2,759)**
Carrying amount							
At 31 December 2009	**2,812**	**6,018**	**172**	**134**	**257**	**1,899**	**11,292**
At 31 December 2010	**3,103**	**6,212**	**169**	**150**	**283**	**2,309**	**12,226**

At 31 December 2010, construction-in-progress includes capitalised expenses related to the implementation of large investment projects by the Group, such as the construction of a new metal plant in Turkey and a cold rolling mill, intended for production of high qualitycold rolled metal products.

For the year ended 31 December 2010, transfers from construction-in-progress to fixed assets relate to continuous-casting plant of the Parent Company and cold rolling workshop and continuous-hot-galvanising plant of the new facility in Turkey.

For the years ended 31 December 2010 and 2009, the interest on borrowings of USD 23 million and USD 35 million, respectively, was capitalised to property, plant and equipment.

At 31 December 2010 and 2009, property, plant and equipment with carrying amount of USD 1,400 million and USD 1,086 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 24 and 29).

Capital commitments are disclosed in Note 33.

No impairment of property, plant and equipment was recognised in the years ended 31 December 2010 or 2009.

In performing the impairment test, the following specific assumptions were used:

- cash flow projections are based on financial forecasts approved by management covering a five year period;
- forecast sales volumes increase by 17% in 2011, increase by 8% in 2012 and remain unchanged till 2015 with increase of 15% this year;
- forecast sales prices increase of 20% in 2011 and an increase on average of 6% per annum thereafter;
- operating costs increase by 43% in 2011, 20% in 2012 and increase on average by 8% thereafter;
- a post-tax discount rate of 11.8% (USD terms).

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas:

- a 1% increase in the discount rate does not give rise to an impairment loss but the fair value of non-current assets decreases by USD 1,286 million;
- a 10% decrease in future planned revenues leads to an impairment loss of USD 1,008 million.

15. GOODWILL

The change in the carrying value of goodwill for the years ended 31 December 2010 and 2009 was as follows:

	2010	2009
Balance at the beginning of the year	292	45
Goodwill arising on acquisitions (Note 5)	-	254
Effect of translation to presentation currency	(2)	(7)
Balance at the end of the year	**290**	**292**

The carriyng amount of goodwill was allocated to cash-generating units as follows:

	31 December 2010	31 December 2009
Coal mining	247	248
Steel	43	44
Total	**290**	**292**

No impairment of goodwill was recognised in the years ended 31 December 2010 or 2009.

The recoverable amount of Coal mining cash-generating unit is determined based on value in use calculation, where the following specific assumptions were used:

- cash flow projections are based on financial forecasts approved by management covering a five year period;
- forecast sales volume of coal concentrate decreases by 7% in 2011 and increases by 8% on average thereafter;
- forecast sales prices increase of 25% in 2011 and an increase on average of 6% per annum thereafter;
- operating costs decrease by 13% in 2011 and increase on average by 9% thereafter;
- a post-tax discount rate of 11.8% (USD terms).

A reasonably possible change in the key assumptions detailed above would not give rise to an impairment.

16. OTHER INTANGIBLE ASSETS

	Licenses	Purchased software	Other intangibles	Total
Cost				
At 1 January 2009	**32**	**16**	**12**	**60**
Additions	5	4	2	11
Acquisition through business combinations	-	1	1	2
Disposals	-	(3)	-	(3)
Effect of translation to presentation currency	(1)	-	(1)	(2)
At 31 December 2009	**36**	**18**	**14**	**68**
Additions	2	4	4	10
Disposals	-	(2)	-	(2)
Effect of translation to presentation currency	(1)	-	-	(1)
At 31 December 2010	**37**	**20**	**18**	**75**
Amortisation				
At 1 January 2009	**(9)**	**(9)**	**(6)**	**(24)**
Charge for the year	(3)	(5)	(3)	(11)
Disposals	-	3	-	3
Effect of translation to presentation currency	1	-	-	1
At 31 December 2009	**(11)**	**(11)**	**(9)**	**(31)**
Charge for the year	(4)	(4)	(4)	(12)
Disposals	-	2	-	2
Effect of translation to presentation currency	-	-	-	-
At 31 December 2010	**(15)**	**(13)**	**(13)**	**(41)**
Carrying amount				
At 31 December 2009	**25**	**7**	**5**	**37**
At 31 December 2010	**22**	**7**	**5**	**34**

The estimated amortisation expense for each of the next five years and thereafter is as follows:

Year ended 31 December,	
2011	9
2012	5
2013	4
2014	4
Thereafter	12
Total	**34**

Actual amortisation expense to be reported in future periods could differ from these estimates as a result of new acquisitions, changes in useful lives, changes in technology and other relevant factors.

No impairment of other intangible assets was recognised in the years ended 31 December 2010 and 2009.

17. INVESTMENTS IN ASSOCIATES

At 31 December 2010 and 2009, the Group's investments in associates comprised the following:

Associate	Registered in	Investment carrying amount 31 December		Ownership and voting interest, % 31 December	
		2010	**2009**	**2010**	**2009**
LLC MMK Trans	Russia	27	20	50%	50%
Other	Russia	2	2	-	-
Total		**29**	**22**		

In addition to the above, at 31 December 2010 and 2009, the Group also owned a 50% share in
CJSC Kazankovskaya Mine, an associate of the Group. Based on information received by the Group and its knowledge of the industry, management believes that no future economic benefits will be obtained from this investment. As a result, at 31 December 2008, the Group wrote off its entire investment in this entity, and therefore no carrying value existed in respect of this investment at
either 31 December 2010 or 2009. The movement in the unrecognised share of losses of
CJSC Kazankovskaya Mine was as follows:

	2010	**2009**
Balance at the beginning of the year	6	-
Share of losses for the year	11	6
Balance at the end of the year	**17**	**6**

Summarised financial information in respect of the Group's associates is set out below:

	31 December	
	2010	**2009**
Total assets	185	135
Total liabilities	(126)	(87)
Net assets	59	48
Group's share of net assets of associates	**30**	**24**
	2010	**2009**
Total revenue	243	666
Total profit/(loss) for the year	23	(77)
Group's share of profit/(loss) of associates	**11**	**(31)**

For the years ended 31 December 2010 and 2009, dividend income from associate was USD 4 million in each year (Note 30).

18. INVENTORIES

	31 December	
	2010	**2009**
Raw materials	677	505
Finished goods and goods for resale	345	266
Work-in-progress	149	107
Deferred drifting costs	79	102
Goods in transit	6	-
Total	**1,256**	**980**
Less: Allowance for obsolete and slow-moving items	(20)	(22)
Total inventories, net	**1,236**	**958**

The movement in the allowance for obsolete and slow-moving items was as follows:

	2010	2009
Balance at the beginning of the year	22	10
Change in allowance	(5)	11
Effect of translation to presentation currency	3	1
Balance at the end of the year	**20**	**22**

At 31 December 2010 and 2009, inventory with a carrying amount of USD 2 million and USD 1 million, respectively, was pledged as security for certain short-term borrowings (Note 29).

19. TRADE AND OTHER RECEIVABLES

	31 December	
	2010	**2009**
Trade receivables	690	766
Advances paid	78	88
Deferred sales proceeds (Note 6)	55	-
Prepaid expenses	15	17
Other receivables	96	77
	934	948
Allowance for doubtful receivables	(143)	(109)
Total trade and other receivables, net	**791**	**839**

The Group does not hold any collateral for accounts receivable balances.

The ageing of receivables past due but not impaired was as follows:

	31 December	
	2010	**2009**
Less than 30 days	35	44
30-60 days	2	19
60-90 days	1	10
90-120 days	-	2
Over 120 days	16	40
Total	**54**	**115**

The management believes that receivables past due will be recovered in full.

The movement in the allowance for doubtful accounts receivable was as follows:

	31 December	
	2010	**2009**
Balance at the beginning of the year	109	37
Increase in allowance	31	71
Effect of translation to presentation currency	3	1
Balance at the end of the year	**143**	**109**

20. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2010	2009
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	1,034	616
Unlisted securities	10	5
Loans and receivables, at amortised cost		
Long-term loans	7	6
Total non-current	**1,051**	**627**
Current		
Held-to-maturity investments, at amortised cost		
Promissory notes receivable	1	3
Loans and receivables, at amortised cost		
Short-term loans	39	10
Financial assets, at fair value through profit or loss		
Trading equity securities	128	186
Trading debt securities	20	16
Share in mutual investment fund	5	6
Total current	**193**	**221**

Non-current listed equity securities classified as available-for-sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and no significant influence. At 31 December 2010 and 2009, the investments revaluation reserve resulting from unrealised holding gains and losses on these securities was USD 680 million and USD 341 million, respectively, net of related income tax effect of USD 170 million and USD 85 million, respectively.

Trading equity securities are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on trade prices obtained from investment brokers.

Trading debt securities and trading promissory notes are liquid publicly traded bonds and notes of Russian companies and banks. They are reflected at period-end market value based on trade prices obtained from investment brokers.

The net gain on revaluation and sale of trading securities for the years ended 31 December 2010 and 2009 was USD 52 million and USD 113 million, respectively. These results are included in other operating income/expenses in the consolidated statement of comprehensive income.

21. CASH AND CASH EQUIVALENTS

	31 December	
	2010	2009
Cash in banks, RUB	246	80
Cash in banks, EURO	40	30
Cash in banks, USD	36	32
Cash in banks, CHF	4	-
Bank deposits, RUB	166	4
Bank deposits, USD	8	1
Bank deposits, TRY	7	-
Bank deposits, EURO	1	1
Bank promissory notes, RUB	7	17
Total	**515**	**165**

At 31 December 2010, the weighted average interest rates on bank deposits with original maturities of less than ninety days were 3.61% for RUB-denominated deposits.

22. SHARE CAPITAL

Common stock

	31 December	
	2010	**2009**
Issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Treasury stock

At 31 December 2010 and 2009, the Group held 169,206 thousand and 72,003 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

Dividends

On 21 May 2010, the Parent Company declared a final dividend of RUB 0.37 (USD 0.01) per ordinary share in respect of the year ended 31 December 2009 representing a total dividend of USD 134 million. Of this total, USD 1 million was attributable to the Group's subsidiary.

For the years ended 31 December 2010 and 2009, the Group paid dividends relating to prior years of USD 189 million and USD 16 million, respectively.

23. LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December		31 December	31 December
		2010	**2009**	**2010**	**2009**
Unsecured listed bonds, RUB	Fixed	8%	10%	611	354
Secured loans, USD	Floating	6%	7%	424	262
Secured loans, EUR	Floating	-	4%	-	73
Secured loans, EUR	Fixed	6%	-	367	-
Unsecured loans, USD	Floating	1%	1%	406	446
Unsecured loans, USD	Fixed	5%	4%	280	79
Unsecured loans, RUB	Fixed	-	14%	-	27
Unsecured loans, EUR	Fixed	4%	9%	10	1
Unsecured loans, EUR	Floating	3%	-	346	-
Secured letter of credit, USD	Floating	-	1%	-	1
Secured letter of credit, EUR	Floating	2%	2%	10	23
				2,454	**1,266**

Bonds

In April 2010, the Parent Company of the Group issued bonds to the value of RUB 8,000 million on the Moscow Interbank Stock Exchange (USD 273 million at the date of issuance), bearing a semi-annual coupon at 7.65% per annum, repayable in April 2013.

In September 2010, the Parent Company of the Group issued bonds to the value of RUB 5,000 million on the Moscow Interbank Stock Exchange (USD 161 million at the date of issuance), bearing semi-annual coupon at 6.47% per annum, repayable in March 2012.

In December 2009, the Parent Company of the Group issued unsecured listed bonds, which are repayable in December 2012 and therefore presented as long-term borrowings as at 31 December 2009 at the carrying value of USD 354 million. The holders of these bonds have a put option and may redeem the bonds in December 2011 at the amortised cost of the bonds on the day of redemption. Accordingly, they are presented in short-term borrowings at 31 December 2010 at the carrying value of USD 329 million (Note 29).

In November 2009, the Parent Company of the Group issued unsecured listed bonds repayable in November 2012. The holders of these bonds had an option to redeem them in November 2010 at the amortised cost of the bonds on the day of redemption and therefore these bonds were classified as short-term borrowings as at 31 December 2009 at the carrying value of USD 167 million (Note 29). However, the holders did not exercise this option and the Group accordingly presented the carrying value as at 31 December 2010 of USD 152 million in long-term borrowings.

Loans

The company has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities.
At 31 December 2010 and 2009, the total unused element of all credit facilities was USD 993 million and USD 1,840 million, respectively.

During the year ended 31 December 2010, the Group obtained secured EUR-denominated loan at fixed interest rate of 6% intended for the construction of a new metal plant in Turkey. At 31 December 2010, the outstanding balance of this loan was USD 384 million (USD 367 million in long-term and USD 18 million in short-term borrowings).

During the year ended 31 December 2010, the Group obtained unsecured EUR-denominated loan at floating interest rate intended for the construction of a cold rolling mill. At 31 December 2010, the outstanding balance of this loan was USD 367 million (USD 335 million in long-term and USD 32 million in short-term borrowings).

The bank loans are subject to certain restrictive covenants, including, but not limited to:

- the ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- the ratio of consolidated EBITDA to consolidated debt service should not be less than 1.3:1; and
- the ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2010 and 2009, the Group was in compliance with its debt covenants.

At 31 December 2010 and 2009, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 1,399 million and USD 1,083 million, respectively, and shares in a subsidiary of USD 279 million and USD 201 million, respectively.

Debt repayment schedule

Year ended 31 December,	
2011 (presented as current portion of long-term borrowings, Note 29)	904
2012	758
2013	562
2014	294
2015 and thereafter	840
Total	**3,358**

24. OBLIGATIONS UNDER FINANCE LEASES

The following table presents future minimum lease payments under finance leases together with the present value of the net minimum lease payments at 31 December 2010 and 2009:

	Minimum lease payments 31 December		Present value of minimum lease payments 31 December	
	2010	**2009**	**2010**	**2009**
Due within one year	14	24	13	20
Due in the second year	7	18	6	15
Due in the third year	1	10	1	8
Due in the fourth year	-	1	-	1
Due in the fifth year and further	-	-	-	-
Total	22	53	20	44
Less: future finance charges	(2)	(9)		-
Present value of minimum lease payments	**20**	**44**	**20**	**44**
Included in the consolidated statement of financial position as:				
Current portion of long-term obligations under finance lease			13	20
Long-term obligations under finance lease			7	24
Total			**20**	**44**

At 31 December 2010 and 2009, the weighted average discount rate for capital lease obligations was 18% and 19%, respectively.

At 31 December 2010 and 2009, leased assets with a net carrying amount of USD 46 million and USD 74 million, respectively, were included in property, plant and equipment as follows:

	Gross carrying value	Accumulated depreciation	Net carrying value
Machinery and equipment	57	(11)	46
Balance at 31 December 2010	**57**	**(11)**	**46**
Machinery and equipment	82	(8)	74
Balance at 31 December 2009	**82**	**(8)**	**74**

25. SITE RESTORATION PROVISION

	31 December	
	2010	**2009**
Balance at the beginning of the year	16	16
Unwiding of discount rate	3	-
Effect of translation to presentation currency	(1)	-
Balance at the end of the year	**18**	**16**

Site restoration costs mainly relate to the revegetating of soil damaged in the course of the development of the open pit mine at Novobachatsky mine. Other site restoration costs relate to expected costs of closing mine shafts once the resource is exhausted.

The expected costs of revegetation and closing mine shaft after consideration of discounting were included in the cost of related classifications in property, plant and equipment.

In making the assumptions for the calculation of the expected costs management has consulted with its in-house engineers who have considered Government requirements in respect of similar sites that require similar site restoration activities. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the site will be restored using technology and materials that are available currently.

26. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 123 million and USD 77 million for the years ended 31 December 2010 and 2009, respectively.

Defined benefit plan

The Group has a defined benefit plan (the "Plan") for employees who retired prior to 1 April 2001. Effective 1 April 2001, employees retiring after that date are not permitted to participate in this Plan. Pensions from this defined benefit plan are administered by the independent charity fund BOF Metallurg.

The Plan does not hold any assets set aside for the benefit of retirees under this plan.

Entitled employees receive lifetime pension payments, which vary from RUB 360 (USD 11.85) to RUB 650 (USD 21.39) per month depending on the employee's years of service and qualifications.

For the years ended 31 December 2010 and 2009, the Group made monthly payments to the Plan of RUB 557 (USD 18.32) and RUB 410 (USD 12.99), respectively, per fund member, which were then distributed to the individual members.

At 31 December 2010 and 2009, the principal actuarial assumptions used in determining the present value of benefit obligations and net periodic pension expenses were as follows:

	31 December	
	2010	**2009**
Discount rate	7.3%	9.1%
Future pension benefit increases	7.5%	8.3%
Average life expectancy of members from date of retirement	9.2	9.4

The components of the net periodic benefit costs/(income) for the years ended 31 December 2010 and 2009 were as follows:

	2010	**2009**
Interest cost	2	3
Actuarial losses/(gains)	8	(12)
Total	**10**	**(9)**

Net periodic benefit costs/(income) were recognised as part of administrative expenses in the consolidated statement of comprehensive income.

Movements in the present value of benefit obligations are presented in the following table:

	2010	2009
Present value of benefit obligations at beginning of the year	**21**	**34**
Interest cost	2	3
Actuarial losses/(gains)	8	(12)
Benefit payments during the year	(3)	(3)
Currency translation adjustment	-	(1)
Defined benefit obligations at end of the year	**28**	**21**
Included in the consolidated statement of financial position as:		
Current portion of retirement benefit obligations	3	2
Long-term portion of retirement benefit obligations	25	19
Total	**28**	**21**

The future benefit payments to retirees under the defined benefit plan are expected to be as follows:

Year ended 31 December,	
2011	3
2012	3
2013	2
2014	2
2015-2019	10
Thereafter	8
Total	**28**

27. TRADE AND OTHER PAYABLES

	31 December	
	2010	**2009**
Trade accounts payable	569	581
Advances from customers	201	132
Dividends payable	16	73
Other taxes payable	82	58
Salaries payable	67	50
Other current liabilities	36	34
Total	**971**	**928**

The maturity profile of the Group's trade and other payables was as follows:

	31 December	
	2010	**2009**
Due in:		
1 month	631	668
1-3 months	29	28
3 months to 1 year	110	100
Total	**770**	**796**

At 31 December 2010 and 2009, overdue accounts payable amounted to USD 186 million and USD 201 million respectively.

28. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December		31 December	
		2010	2009	2010	2009
Short-term borrowings:					
Secured loans, USD	Floating	2%	2%	150	201
Secured loans, EUR	Floating	1%	2%	20	84
Secured loans, RUB	Fixed	-	18%	-	2
Unsecured loans, RUB	Fixed	-	12%	-	28
Secured letter of credit, USD	Floating	-	2%	-	1
Secured letter of credit, EUR	Floating	-	2%	-	2
				170	318
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	10%	10%	372	202
Secured loans, RUB	Fixed	-	16%	-	74
Secured loans, USD	Floating	6%	6%	117	47
Secured loans, EUR	Floating	-	2%	-	2
Unsecured loans, EUR	Floating	3%	-	33	-
Secured loans, EUR	Fixed	6%	-	18	-
Unsecured loans, USD	Floating	2%	2%	262	108
Unsecured loans, RUB	Fixed	-	11%	-	19
Unsecured loans, USD	Fixed	5%	5%	86	30
Unsecured loans, EUR	Fixed	4%	8%	3	2
Secured letter of credit, USD	Floating	1%	2%	1	-
Secured letter of credit, EUR	Floating	2%	2%	12	6
				904	490
Total				**1,074**	**808**

During the year 2010 some unsecured listed bonds issued by the Parent Company were reclassified from long-term borrowings to short-term and vice-versa due to put options available to the holders of such bonds (Note 24).

The weighted average interest rates of short-term borrowings at 31 December 2010 and 2009 were as follows:

	31 December	
	2010	2009
RUB-denominated	10%	12%
USD-denominated	3%	3%
EUR-denominated	3%	2%

At 31 December 2010 and 2009, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 1 million and USD 3 million, respectively, and inventory of USD 2 million and USD 1 million, respectively.

Short-term borrowings and the current portion of long-term borrowings are repayable as follows:

	31 December	
	2010	2009
Due in:		
1 month	63	73
1-3 months	225	248
3 months to 1 year	786	487
Total	**1,074**	**808**

29. RELATED PARTIES

Transactions and balances outstanding with related parties

Transactions between the Prent Company and its subsidiaries, which are related parties of the Parent Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

The issuance of guarantees in respect of related parties is disclosed in Note 31.

The following companies are considered to be related parties to the Group:

CJSC Profit

CJSC Profit, a company which was previously affiliated with the Group's controlling shareholders, purchases scrap metal from third parties and the Group entities and sells it to the Group. In 2008, CJSC Profit also reprocessed scrap metal prior to selling it to the Group. CJSC Profit was acquired by the Group in June 2009 (Note 5).

The Group also provided loans to CJSC Profit. At the date of acquisition, there were no outstanding loans.

LLC MEK

LLC MEK, a company affiliated with the Group's controlling shareholders, sells electricity to the Group.

OJSC CUB

The Group holds certain deposits and current accounts in OJSC CUB, a commercial bank affiliated with the Group's management. The Group receives financing from OJSC CUB in the form of loans for the Group's operating activities on arm's length basis.

LLC MMK Trans

LLC MMK Trans, a Group associate, provides transportation and forwarding services to the Group.

CJSC Kazankovskaya Mine

CJSC Kazankovskaya Mine, a Group associate, holds a license to explore and mine coal deposits located in Kemerovo region, Russian Federation.

OJSC Belon

OJSC Belon, a former Group associate, a coal-producer, located in the Russian Federation, supplies coal to the Group at market terms. The Group acquired the remaining 50% of Onarbay Enterprises Ltd, the parent of OJSC Belon, in October 2009 (Note 5). Following this acquisition, the Group obtained control over Onarbay Enterprises Ltd.

For the year ended 31 December 2009, prior to the Group's acquisition of Onarbay Enterprises Ltd, share of results of associates included loss of USD 37 million, respectively, related to the Group's associate Onarbay Enterprises Ltd, a parent of OJSC Belon.

Details of transactions with and balances between the Group and related parties at 31 December 2010 and 2009 and for the years ended 31 December 2010 and 2009 are disclosed below.

Transactions	**2010**	**2009**
Revenue		
OJSC Belon	-	3
LLC MEK	2	2
Total	**2**	**5**
Purchases		
LLC MEK	165	83
OJSC Belon	-	72
LLC MMK Trans	106	60
CJSC Profit	-	19
Total	**271**	**234**
Bank charges		
OJSC CUB	4	5
Bank loans and overdrafts obtained		
OJSC CUB	1	25
Bank loans and overdrafts repaid		
OJSC CUB	19	22
Dividend income from associate		
LLC MMK Trans (Note 18)	4	4

	31 December	
Balances	**2010**	**2009**
Cash and cash equivalents		
OJSC CUB	70	28
Loans and overdraft facilities		
OJSC CUB	-	18
Accounts receivable		
LLC MMK Trans	8	11
Accounts payable		
LLC MEK	4	2
LLC MMK Trans	6	-
Total	**10**	**2**

The amounts outstanding are unsecured and will be settled in cash.

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits.
For the years ended 31 December 2010 and 2009, key management personnel received as compensation USD 14 million and USD 17 million, respectively.

30. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk exposures, market movements in interest rates, equity investment prices and fluctuations in foreign exchange rates. A description of the Group's risks and associated management policies in relation to these risks are detailed below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's borrowings (the maturity profiles for other liabilities are presented in notes 25, 27 and 28) based on contractual undiscounted payments, including interest:

2010	Weighted average effective interest rate %	Total	Due within one month	Due from one to three months	Due in the second to fifth years	Due in the second to fifth years	Due thereafter
Fixed rate bank loans and borrowings							
Principal	7%	**1,793**	6	2	583	947	255
Interest		**306**	16	10	106	148	26
		2,099	**22**	**12**	**689**	**1,095**	**281**
Floating rate borrowings							
Principal	3%	**1,789**	35	222	300	780	452
Interest		**198**	9	8	22	122	37
		1,987	**44**	**230**	**322**	**902**	**489**
Total		**4,086**	**66**	**242**	**1,011**	**1,997**	**770**
2009							
Fixed rate borrowings							
Principal	10%	**863**	8	7	344	489	15
Interest		**92**	3	7	36	45	1
		955	**11**	**14**	**380**	**534**	**16**
Floating rate borrowings							
Principal	3%	**1,316**	63	236	146	522	349
Interest		**125**	3	3	16	72	31
		1,441	**66**	**239**	**162**	**594**	**380**
Total		**2,396**	**77**	**253**	**542**	**1,128**	**396**

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents and deposits with banks as well as credit exposures to customers, including outstanding uncollateralised trade and other receivables.

Prior to acceptance of a new customer, the Group assesses the customer's credit quality and defines credit limits. Credit limits attributable to customers are regularly reviewed, at a minimum annually.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recorded in the financial statements, which is net of any amounts offset and any impairment losses, and the amount of financial guarantees for loans obtained by certain related and third parties of the Group.

At 31 December 2010 and 2009, the Group's maximum exposure to credit risk for trade receivables including trade receivables from related parties by type of customers was as follows:

	31 December	
	2010	2009
Automobile producers	48	50
Traders	171	220
Tube plants	144	147
Other industries	184	240
Total	**547**	**657**

At 31 December 2010 and 2009, amounts related to financial guarantees given by the Group to third parties were as follows:

	31 December	
	2010	2009
Non-current	3	16
Current	-	17
Total	**3**	**33**

The Group's management believes that the likelihood of material payments being required under these agreements is remote.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. Currently, the Group does not use hedging instruments to manage exchange rate exposures.

At 31 December 2010 and 2009, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency, the Russian Rouble, were as follows:

	31 December 2010		31 December 2009	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	41	44	31	33
Loans	-	33	-	-
Trade receivables	31	51	68	86
Total assets	**72**	**128**	**99**	**119**
Liabilities				
Trade payables	(116)	(100)	(156)	(104)
Borrowings	(819)	(1,726)	(193)	(1,175)
Total liabilities	**(935)**	**(1,826)**	**(349)**	**(1,279)**
Total net position	**(863)**	**(1,698)**	**(250)**	**(1,160)**

The table below details the Group's sensitivity to a depreciation of the RUB against USD and EUR by 10%, which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		USD impact	
	2010	2009	2010	2009
Loss	(86)	(25)	(171)	(116)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 1%, which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

	31 December	
	2010	**2009**
Profit or loss	18	13

Equity and debt investment price risk

The Group is also exposed to investment price risk arising from holding equity and debt investments. Certain portion of the Group's investments is held for strategic, rather than trading, purposes.
The sensitivity analysis below has been determined based on the exposure to equity and debt price risks at the reporting date.

If equity and debt prices had been 5% higher/lower:

- the investment revaluation reserve within equity would increase/decrease by USD 52 million (2009: increase/decrease by USD 31 million), as a result of changes in fair value of listed securities available-for-sale; and
- profit for the year would increase/decrease by USD 7 million (2009: increase/decrease by USD 10 million), as a result of changes in fair value of listed debt and equity securities classified as at fair value through profit or loss.

31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity.

The capital structure of the Group consists of debt (Notes 24 and 29), share capital (Note 23) and retained earnings.

The management of the Group reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2010 in comparison to the prior period.

32. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

In the course of carrying out its operations and other activities the Group enters into various agreements which requires the Group to invest in or provide financing to specific projects or undertakings.
In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses to the Group.

At 31 December 2010, the Group executed non-binding purchase agreements of approximately USD 15,221 million to acquire in future periods through 2011 – 2017 property, plant and equipment, coking coal, zinc, aluminium, iron ore and natural gas (at 31 December 2009 – USD 11,226 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

In the past, the Group transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund these social operations for the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the years ended 31

December 2010 and 2009 was approximately
USD 19 million in each year.

The Group leases land through operating lease agreements, which expire in various years through 2059. Future minimum lease payments due under non-cancellable operating lease agreements at
31 December 2010 were as follows:

Due in one year	7
Due in the second year	3
Due thereafter	44
	54

Contingencies

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and the Russian economy in general.

Laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Russian financial and capital markets in 2008 and 2009 has receded and the Russian economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Russian economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information. In the absence of such information available-for-sale investments were presented at cost, net of impairment.

At 31 December 2010 and 2009, the estimated fair values of financial assets, including cash and cash equivalents, investments in securities, trade and other receivables, loans given and promissory notes, short-term borrowings, trade and other payables approximated their carrying values due to the short-term nature of these instruments.

At 31 December 2010, USD 919 million of listed bonds, placed in 2009 and 2010, had a fair value of 101.29% or USD 931 million. This fair value was determined based on Moscow Interbank Stock Exchange quotations.

At 31 December 2010 and 2009, fair value of unsecured long-term debt, denominated in USD, was USD 686 million and USD 525 million, respectively. This fair value was determined based on market rates available to the Group at respective date.

For the years ended 31 December 2010 and 2009, no derivatives were designated as hedges.

34. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

In March 2011, the Group concluded an agreement for the acquisition of 50% minus 1 share of MMK Atakas Metalurji for a total consideration of USD 485 million.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2010 were approved by the Group's management and authorised for issue on 31 March 2011.

Annex 2

Information on Compliance with the Code of Corporate Conduct

(In accordance with the form specified in the guidelines for the composition and form of presenting information on compliance with the Code of Corporate Conduct in annual reports of open joint stock companies, approved by Decree #03-849/r of the Federal Commission for the Securities Markets of the Russian Federation, dated 30.04.2003)

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
General Shareholders' Meeting			
1.	The shareholders shall be notified of a general shareholders' meeting not less than 30 days prior to the meeting, irrespective of the meeting's agenda items, unless a longer period is provided for by applicable laws.	yes	Paragraph 10.7 of the Charter of OJSC MMK approved by the Resolution of the Annual General Shareholders' Meeting, dated 22.05.2009.
2.	The shareholders shall be able to review the list of persons entitled to participate in the general shareholders' meeting starting from the day of notifying the shareholders of the meeting till the closing of the general shareholders' meeting, if held in the form of personal attendance, or till the deadline for receipt of voting ballots, if a meeting is held in the form of absentee voting.	yes	Paragraph 2.3 of the Regulations on the General Shareholders' Meeting of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010
3.	The shareholders shall be able to review information to be presented during preparation for the general shareholders' meeting, via electronic communication, including the Internet.	yes	Paragraph 4.4 of the Regulations on the Information Policy of OJSC MMK, approved by the Resolution of the Board of Directors of OJSC MMK, dated 14.02.2008.
4.	The shareholders shall be entitled to propose items for the agenda of the general shareholders' meeting or request convening of a general shareholders' meeting without providing an extract from the shareholders' register in case their share rights are registered with the share register system, and in case their share rights are registered on a custody account, an extract from the custody account should be sufficient to exercise such rights.	yes	Paragraphs 10.10, 10.18 of the Charter of OJSC MMK, approved by Resolution of the Annual General Shareholders' Meeting, dated 22.05.2009. Paragraphs 3.1, 6.1 of the Regulations on the General Shareholders' Meeting of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010
5.	The General Director, members of the Board of Directors and the Management Board of OJSC MMK, members of the Audit Committee and Auditor of the Company are required to attend general shareholders' meetings pursuant to the Charter and Bylaws of OJSC MMK.	yes	Paragraph 5.4 of the Regulations on the Audit Committee of OJSC MMK, approved by the Resolution of the Shareholders' Meeting of OJSC MMK, dated 22.04.2005 Members of the Board of Directors and the Management Board of OJSC MMK, the General Director and Auditor of the Company are invited to participate in a general shareholders' meeting (Paragraph 9.8 of the Regulations on the General Shareholders' Meeting of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010)
6.	Candidates must attend the meeting in person if the meeting is to consider items regarding the election of members to the Boars of Directors, the General Director, members to the Management Board and to the Audit Committee, or the approval of OJSC MMK's Auditor.	yes	Practiced as part of corporate governance system of OJSC MMK
7.	OJSC MMK's Bylaws must specify the registration procedure for participants of a general shareholders' meeting.	yes	Paragraph 8 of the Regulations on the General Shareholders' Meeting of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
The Board of Directors			
8.	The Company's Charter shall provide that the Board of Directors be authorized to annually approve the Company's plan of financial and operational activities.	yes	Paragraph 11.7.38 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 22.05.2009
9.	The Board of Directors shall approve the Company's risks managing procedure.	no	The Company's Standard STP KSUR 2-01-2006 standard "Comprehensive Risk Management System" planned for approval by the Board of Directors
10.	The Company's Charter shall provide that the Board of Directors be entitled to resolve on the suspension of powers of the general director appointed by the general shareholders' meeting.	yes	Paragraph 11.7.16 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting dated 22.05.2009.
11.	The Company's Charter shall provide that the Board of Directors be authorized to specify the qualifications of and size of remuneration for the general director, members of the Management Board, and heads of the Company's operating divisions.	yes	Paragraphs 11.7.15 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting dated 22.05.2009.
12.	The Company's Charter shall provide that the Board of Directors be authorized to approve the terms of contracts with the general director and members of the Management Board.	yes	Paragraphs 11.7.15, 13.9, and 14.8 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting dated 22.05.2009.
13.	The Company's Charter and bylaws shall require that votes of the members of the Board of Directors who are simultaneously the general director or members of the Management Board, not be counted when approving the terms of contracts with the general director (the managing Company or executive manager) and members of the Management Board.	yes	Paragraph 11.11 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting dated 22.05.2009.
14.	At least three independent directors meeting the criteria of the Code of Corporate Conduct shall be members of the Board of Directors.	yes	Paragraph 2 of Minutes # 30 of the Annual General Shareholders' Meeting, dated 21.05.2011.
15.	The Board of Directors of OJSC MMK shall comprise no members found guilty of economic crimes or offences against the State, the civil service or local self-government bodies, or subjected to administrative penalties for administrative offences in the areas of entrepreneurial activities, finance, taxes and duties, or stock market transactions.	yes	
16.	No member of the Board of Directors of OJSC MMK shall be a partner, general director (executive manager), member of a managing body or employee of the Company's competitors.	yes	
17.	The Company's Charter shall require that members of the Board of Directors of the Company be elected by cumulative voting.	yes	Paragraph 11.5 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting dated 22.05.2009.

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
18.	Company's ylaws shall prevent members of the Board of Directors from taking any steps that will or might give rise to a conflict of interests between them and the Company, or, in case such conflict of interests arises, provide that the members be obliged to disclose information on such conflict to the Board of Directors.	yes	Paragraphs 17.1, 17.3 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 22.05.2009, Paragraph 6 of the Business Ethics Code, approved by the Resolution of the Board of Directors of OJSC MMK, dated 17.07.2009.
19.	Company's bylaws shall require that members of the Board of Directors notify the Board of Directors in writing of their intention to enter into transactions with the Company's securities or its subsidiary (related) companies, and disclose information on transactions made with such securities.	yes	Paragraph 17.4 of the Charter of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 22.05.2009, Article 20 of the Regulations on the Board of Directors of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010
20.	Company's bylaws shall require that meetings of the Board of Directors be held at least once every 6 weeks.	yes	Article 9 of the Regulations on the Board of Directors of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010
21.	Meetings of the Board of Directors of OJSC MMK shall be held at least once every 6 weeks during the year for which an annual report is prepared.	yes	
22.	The Company's bylaws shall specify the procedure for holding meetings of the Board of Directors.	yes	Chapter III of the Regulations on the Board of Directors of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010
23.	The Company's bylaws shall include a provision on mandatory approval by the Board of Directors of the Company's transactions whose value is equal to or exceeds 10% of the book value of the Company's assets, excluding transactions made in the normal course of business.	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
24.	The Company's bylaws shall provide that members of the Board of Directors of OJSC MMK be entitled to request necessary information to discharge their duties, from the executive bodies and heads of the Company's divisions. Company's bylaws shall specify the liability for failure to submit such information.	yes	Article 6 of the Regulations on the Board of Directors of OJSC MMK, approved by the Resolution of the Annual General Shareholders' Meeting, dated 21.05.2010
25.	The Company shall have a Board of Directors' committee for strategic planning or vest the obligations of the said committee with another committee (except for the committee for audit and the committee for nominations and remunerations)	yes	P. 5 of Minutes # 1 of the Meeting of the OJSC MMK Board of Directors dated 21.05.2010; Regulations on the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008; Amendments and additions to the Regulations on the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance approved by the Resolution of the OJSC MMK Board of Directors dated 27.11.2009.

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
26.	The Company shall have a Board of Directors' committee (Committee for Audit) to recommend an auditor to the Board of Directors and liaise with such an auditor and the Company's Audit Committee	yes	P. 4 of Minutes # 1 of the Meeting of the OJSC MMK Board of Directors dated 21.05.2010; Regulations on the Committee of the OJSC MMK Board of Directors for Audit approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008; Amendments and additions to the Regulations on the Committee of the OJSC MMK Board of Directors for Audit approved by the Resolution of the OJSC MMK Board of Directors dated 27.11.2009.
27.	The BoD Audit Committee shall consist only of independent and non-executive directors	yes	P. 4 of Minutes # 1 of the Meeting of the Board of Directors dated 21.05.2010.
28.	The chairman of the BoD Audit Committee shall be an independent director	yes	The Chairman of the Committee for Audit is an independent director. p. 4 of Minutes #1 of the Meeting of the OJSC MMK Board of Directors dated 21.05.2010
29.	All members of the BoD Audit Committee shall be entitled by the Company's bylaws to access any documents and information of the Company on condition of non-disclosure of any confidential information	yes	pp. 7.1.2, 14.1, 14.2 of the Regulations on the Committee of the OJSC MMK Board of Directors for Audit approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008
30.	Establishment of a committee of the Board of Directors (Committee of the Board of Directors for Nominations and Remuneration), whose function is to determine criteria for selection of candidates to the Board of Directors and development of the Company's remuneration policy	yes	P. 6 of Minutes # 1 of the Meeting of the OJSC MMK Board of Directors dated 21.05.2010. p.6 of the Regulations on the Committee of the OJSC MMK Board of Directors for Nominations and Remunerations approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008
31.	The chairperson of the Committee for Nominations and Remuneration shall be an independent director	yes	The chairperson of the Committee for Nominations and Remuneration is an independent director. p. 6 of Minutes # 1 of the Meeting of the OJSC MMK Board of Directors dated 21.05.2010
32.	No member of the Committee for Nominations and Remunerations shall be an officer of the Company	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
33.	A committee of the Board of Directors for risks shall be established, or its functions shall be vested with another committee (except for the Committee for Audit and the Committee for Nominations and Remuneration)	yes	The functions of the Committee of the OJSC MMK Board of Directors for Risks are vested with the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance.

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
34.	A committee for corporate conflicts' settlement of the Company's Board of Directors shall be established, or its functions shall be vested with another committee (except for the Committee for Audit and the Committee for Nominations and Remuneration)	yes	The functions of the OJSC MMK Board of Directors for Corporate Conflicts' Settlement are vested with the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance. p.6.43 of the Regulations on the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008 and p.p.6.42, 6.45 of Amendments and Additions to the Regulations on the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance approved by the Resolution of the Board of Directors dated 27.11.2009. p. 6.40 of the Regulations on the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008 and p. 5 of Amendments and Additions to the Regulations on the Committee of the OJSC MMK Board of Directors for Strategic Planning and Corporate Governance approved by the Resolution of the Board of Directors dated 27.11.2009.
35.	No member of the committee for corporate conflicts' settlement shall be an officer of the Company	no	
36.	The chairperson of the committee for corporate conflicts' settlement shall be an independent director	no	
37.	The Company's bylaws approved by the Board of Directors shall provide for a procedure of establishment and operation of the Board of Directors' committees	yes	Regulations on Committees of the OJSC MMK Board of Directors approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2008 and Amendments and Additions to the Regulations in the Committee of the OJSC MMK Board of Directors approved by the Resolution of the OJSC MMK Board of Directors dated 21.11.2009.
38.	The Company's Charter shall provide for a procedure of determining the quorum at the Board of Directors' meetings ensuring obligatory participation of independent directors in such meetings	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
Executive bodies			
39.	The Company shall have a collective executive body (Management Board)	yes	p.13 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009
40.	The Company's Charter or bylaws shall provide for mandatory approval by the Management Board of real estate transactions or loans unless such transactions are major transactions or they are made in the ordinary course of the Company's business	yes	p. 13.4.2 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
41.	The Company's bylaws shall provide for a procedure of coordinating operations not covered by the Company's financial and business plan.	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
42.	No member of the Company's executive bodies shall be a partner, general director (managing director), member of a governing body or employee of the Company's competitors	yes	
43.	The Company's executive bodies shall comprise no members found guilty of economic crimes or crimes against state authorities, public services or local government or subjected to administrative punishment for offences in business, finance, taxes and fees as well as security market. If the function of the individual executive body is performed by a managing organization or a managing director, the general director and members of the Management Board of the managing organization or the manager shall meet the requirements for the Company's general director and members of the Management Board.	yes	
44.	The Company's Charter or bylaws shall prohibit a managing organization (managing director) from performing similar functions in a competing company or having any other property relations with the Company except for rendering services as a managing organization (managing director)	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
45.	The Company's bylaws shall prohibit any actions of the executive bodies which will or may result in a conflict of interests between them and the Company; or in case of such a conflict, they shall oblige them to inform the Board of Directors accordingly	yes	pp.17.1 and 17.3 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009 p. 5 of the Regulations on the Procedure of Corporate Conflicts Settlement approved by the Resolution of the OJSC MMK Board of Directors dated 16.07.2010 p. 6 of the Code of Business Ethics approved by the Resolution of the OJSC MMK Board of Directors dated 17.07.2009
46.	The Company's Charter or bylaws shall provide for criteria of selection of a managing organization (a manager)	no	Part of the corporate governance system improvement plan
47.	The Company's executive bodies shall submit monthly work statements to the Board of Directors	yes	Regular reports of executive bodies for prioritized spheres of activities of OJSC MMK in accordance with the Work Plan of the OJSC MMK Board of Directors
48.	Agreements concluded between the Company and the general director (a managing organization, a managing director) and members of the Management Board shall provide for liability for violating provisions on the use of confidential and insider information	yes	Provided for by terms of agreements with OOO MMK Managing Company and members of the Management Board of OJSC MMK

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
Company's Secretary			
49.	The Company shall employ a special officer (the Company's secretary), whose function is to ensure compliance by the Company's bodies and officers with procedural requirements securing implementation of the Company's rights and legitimate interests	yes	p.15.1 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009 p. 3 of Minutes # 1 of the Meeting of the OJSC MMK Board of Directors dated 21.05.2010
50.	The Company's Charter or bylaws shall provide for a procedure of appointing (selecting) a Company's secretary and determining its duties	yes	p. 11.7.45 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009 pp. 4.2, 7 of the Regulations on the Corporate Secretary approved by the Resolution of the OJSC MMK Board of Directors dated 22.04.2005
51.	The Company's Charter shall set out requirements for a candidate for the position of the corporate secretary	yes	p. 15.2 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009
Material Corporate Actions			
52.	The Company's Charter or bylaws shall contain a requirement for major transactions' approval prior to their conclusion	yes	pp. 10.3.21, 11.7.23 of the OJSC MMK Charter approved by the Resolution of the Annual General Shareholders' Meeting of the OJSC MMK dated 22.05.2009
53.	The Company shall engage an independent appraiser for assessing the market value of property which is the subject of a major transaction	yes	
54.	The Company's Charter shall prohibit, when acquiring a major share stock of the Company (merger), any actions aimed at protecting the interests of the executive bodies (members of such bodies) or members of the Company's Board of Directors, or deteriorating the position of the shareholders compared to the current status (particularly, prohibiting the Board of Directors from taking decisions on issuing any additional shares, any securities convertible into shares or any securities entitling to acquire shares in such a Company prior to the end of the estimated period for acquiring such shares, even if the right to take such a decision is envisaged by the Charter)	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
55.	The Company's Charter shall provide for obligatory engagement of an independent appraiser for assessing the current market value of the shares and possible changes in their market value as a result of a merger	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
56.	The Company's Charter shall not exempt a purchaser from the obligation to make an offer to the shareholders to sell the Company's ordinary shares owned by such shareholders (issued securities convertible into ordinary shares) during a merger	yes	

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
57.	The Company's Charter or bylaws shall provide for an obligatory engagement of an independent appraiser to determine the shares conversion ratio when reorganizing the Company	yes	p. 12.3 of the OJSC MMK's Regulations on the Material Corporate Activities approved by the Resolution of the Board of Directors on 21.11.2008
Information Disclosure			
58.	The Board of Directors shall approve an internal document defining the Company's rules and approaches to information disclosure (Regulations on the Information Policy)	yes	OJSC MMK's Regulations on the Information Policy approved by the Resolution of the Board of Directors on 14.02.2008
59.	The Company's bylaws shall require disclosure of information on the goals of shares placement, persons intending to purchase the shares to be placed including major share packages, and whether the top managers of the Company will participate in purchasing the Company's shares to be placed	yes	P. 5.2 of the Regulations on the Information Policy approved by the Resolution of the Board of Directors on 14.02.2008
60.	The Company's internal documents shall contain a list of information, documents and materials to be provided to the shareholders for consideration of the agenda items of a general shareholders' meeting	yes	p. 5.3 of the OJSC MMK's Regulations on the General Shareholders' Meeting approved by the Resolution of the General Shareholders' Meeting dated 21.05.2010 p.5.2 of the Regulations on Information Policy of OJSC MMK approved by the Resolution of the Board of Directors on 14.02.2008
61.	The Company shall have a website and disclose the Company's information thereon on a regular basis	yes	http://www.mmk.ru/
62.	The Company's internal documents shall require disclosure of information on the Company's transactions with persons considered top managers as per the Company's Charter, or the Company's transactions with entities, in which the Company's top managers own, directly or indirectly, at least 20% of the authorized capital, or on which such persons can otherwise exert significant influence	yes	p. 5.2 of OJSC MMK's Regulations on the Information Policy approved by the Resolution of the Board of Directors on 14.02.2008
63.	The Company's internal documents shall require disclosure of information on all transactions which can have an effect on the market value of the Company's shares	yes	p. 5.2 of OJSC MMK's Regulations on the Information Policy approved by the Resolution of the Board of Directors dated 14.02.2008
64.	The Board of Directors shall approve an internal document on the use of material information on the Company's activities, shares, other securities and the transactions therewith, which is not a public domain and the disclosure of which may exert a material influence on the market value of the shares and other securities of the Company	yes	The Regulations on Insider Information of OJSC MMK approved by the Resolution of the Board of Directors dated 14.02.2008

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
Control of Financial and Business Operations			
65.	The Board of Directors shall approve procedures of internal supervision of the Company's financial and business operations	yes	pp. 4 and 5 of OJSC MMK's Regulations on Internal Control Procedures approved by the Resolution of the Board of Directors dated 23.12.2005; amendments and additions to the Regulations on Internal Control Procedures of OJSC MMK approved by the Resolution of the Board of Directors dated 14.02.2008; amendments and additions to the Regulations in Internal Control Procedures of OJSC MMK approved by the Resolution of the Board of Directors dated 27.11.2009
66.	The Company shall have a special division ensuring compliance with the internal supervision procedures (supervision and audit department)	yes	
67.	The Company's internal documents shall require that the structure and membership of the supervision and audit department be determined by the Company's Board of Directors	yes	pp. 16.3 and 16.4 of OJSC MMK's Charter approved by the Resolution of the Annual General Shareholders' meeting dated 22.05.2009 pp. 2.1 and 2.2 of the OJSC MMK's Regulations on Audit Committee approved by the Resolution of the Annual General Shareholders' Meeting dated 22.04.2005
68.	The supervision and audit department shall not comprise any persons found guilty of economic crimes or offenses against federal authorities, public services or local government or subjected to administrative punishment for offences in business, finance, taxes and fees as well as securities markets.	yes	
69.	The supervision and audit department shall not employ any persons who are members of the Company's executive bodies, or persons who are members, CEO (managing director), members of the governing bodies, or employees of any competing Company	yes	
70.	The Company's internal documents shall specify deadlines for submitting documents and materials to the supervision and audit department for evaluating financial and business operations performed, and the responsibility of the Company's officers and employees for failure to submit such documents and materials on time	yes	pp. 5.8 and 6.1 of OJSC MMK's Regulations on Internal Control Procedures approved by the Resolution of the Board of Directors on 23.12.2005; p. 5.8 of Amendments and Additions to OJSC MMK's Regulations on Internal Control Procedures approved by the Resolution of the Board of Directors dated 27.11.2009
71.	The Company's internal documents shall provide for the obligation of the supervision and audit department to inform the BoD Audit Committee (or, in case of its absence, the Board of Directors) of the non-compliances found.	yes	pp. 5.5.6 and 5.6 of the OJSC MMK's Regulations on Internal Control Procedures approved by the Resolution of the Board of Directors on 23.12.2005; Amendments and Additions to OJSC MMK's Regulations on Internal Control Procedures approved by the Resolution of the Board of Directors dated 14.02.2008; Amendments and Additions to OJSC MMK's Regulations on Internal Control Procedures approved by the Resolution of the Board of Directors dated 27.11.2009

#	Provisions of the Code of Corporate Conduct (CCC)	Compliance with CCC (yes or no)	Remarks
72.	The Company's Charter shall require that the supervision and audit department make a preliminary assessment of whether it is feasible to perform operations not included in the Company's financial and business plan (nonstandard operations)	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
73.	The internal documents of the Company shall provide for a procedure of approval of nonstandard operations by the Board of Directors	no	Part of the corporate governance system improvement plan (Minutes #3 of the Meeting of the Board of Directors of OJSC MMK dated 24.09.2010)
74.	The Board of Directors shall approve a bylaw specifying a procedure of auditing the Company's financial and business activities by the Audit Committee	yes	Regulations on the Audit Committee of OJSC MMK approved by the Resolution of the OJSC MMK shareholders' meeting on 22.04.2005
75.	The BoD Audit Committee shall evaluate the Auditor's opinion prior to its submission to the general shareholders' meeting	yes	Clause 6.3.6 of the OJSC MMK's Regulations on the Committee for Audit of the Board of Directors approved by the Resolution of the OJSC MMK's Board of Directors on 21.11.2008
Dividends			
76.	The Board of Directors shall approve an internal document by which the Board of Directors shall be guided in recommending the dividends' size (the Regulations on the Dividend Policy)	yes	OJSC MMK's Regulations on the Dividend Policy approved by the Resolution of the Board of Directors on 14.02.2008
77.	The Regulations on the Dividend Policy shall specify the minimum share of the Company's net income to be allocated to the payment of dividend and the conditions under which dividends on preferred shares whose size is set out in the Company's Charter, are not paid or paid partially	yes	p. 5.2 of OJSC MMK's Regulations on the Dividend Policy approved by the Resolution of the Board of Directors on 14.02.2008
78.	Publication of the Company's information on the dividend policy and amendments thereto in the periodical specified in the Company's Charter for publication of information on general shareholders' meetings, and placing the above information on the Company's website	yes	pp. 4.4 and 5.3 of the OJSC MMK's Regulations on the Information Policy approved by the Resolution of the Board of Directors on 14.02.2008

For notes